

Flexible Benefits Sourcebook

for Active State Employees

Commonwealth of Virginia

**Annual Enrollment
November 1 through
December 1, 2000**

**Administered by the Department of
Human Resource Management**

Your Annual Enrollment

To help you reduce your taxes and increase your spendable income, The Commonwealth of Virginia brings you the Flexible Benefits Program with Premium Conversion and Flexible Reimbursement Accounts (FRAs). An easy way to save on taxes is enrolling in one or more of the program's components.

- **Premium Conversion** allows you to pay your share of your health benefits premium through payroll deduction before taxes are deducted.
- **Reimbursement Accounts** allow you to set aside part of your salary each pay period on a pre-tax basis for one or both of the following accounts:

Medical Expense Reimbursement Account — allows you to pay for eligible out-of-pocket medical, dental and vision care expenses not covered by your health benefits plan and

Dependent Care Reimbursement Account — allows you to pay eligible dependent expenses for your child, disabled spouse, elderly parent or other dependent incapable of self-care.

Because of the tax advantages the Flexible Benefits Program provides, there are tax laws and Internal Revenue Service regulations governing how the program operates. For more detailed information or clarification, see your agency's Benefits Administrator.

Important Information

- Annual Enrollment is **November 1 through December 1**.
- To enroll in Premium Conversion and/or Reimbursement Accounts, contact your agency's Benefits Administrator or visit the DHRM web site at www.dhrm.state.va.us/hbenefit.htm.
- Once you enroll in Premium Conversion, your participation continues automatically each year, unless you elect not to participate.
- Enrollment in your Flexible Reimbursement Accounts must be done each year, even if your total contribution for the new plan year remains the same.
- You must enroll by December 1st.
- You will receive a confirmation letter for your Flexible Reimbursement Account election(s) from Fringe Benefits Management Company. Please review the letter to verify the type and amount of the election(s). If you discover an error, you must notify your agency's Benefits Administrator immediately.
- If you have questions about your Flexible Reimbursement Accounts, call Fringe Benefits Management Company (FBMC) Customer Service at 1-800-342-8017, Monday through Friday, 7 a.m. to 10 p.m. EST, 1-800-955-8771 (TDD).

24-Hour Information on your FRA Benefits

Information regarding your Flexible Reimbursement Accounts is right at your fingertips! You may either call the Interactive Benefits Information line at 1-800-865-FBMC(3262) to review your FRA benefit information and request claim forms (see page 9 of this booklet for more details); or you can send an e-mail to FBMC Customer Service at webcustomerservice@fbmc-benefits.com.

In the year 2001, Customer Service and Account Information will be available to you through the FBMC homepage. To access your personal account, you will enter your Social Security number as your Employee Number and the last four digits of your SSN as your temporary password. (If you have already used the Interactive Benefits telephone information line, the password you've chosen there will be the password you use here.)

Premium Conversion

Premium Conversion allows you to receive a tax break by having your health insurance premiums deducted from your paycheck *before* taxes are calculated. That way, you don't have to pay federal income, state income (where applicable) or Social Security taxes on the money you spend for this expense. The end result? Less taxes paid out and more spendable income.

You may enroll or discontinue participation in Premium Conversion during the Annual Enrollment period or within 31 days of a Change In Status (see page 10-11 for a listing).

It is not necessary to re-enroll in Premium Conversion each year.

Be sure to read "The Fundamental Facts" section of this booklet for more details on the rules governing Premium Conversion.

If you have questions, contact your agency's Benefits Administrator.

The examples below show how Premium Conversion can save tax dollars.

EXAMPLE 1

An eligible employee with no dependents earns \$27,000 a year, is in the 15% tax bracket and pays 7.65% in Social Security taxes, for a total of 22.65% in taxes.

	With Premium Conversion	Without Premium Conversion
Monthly Taxable salary	\$2,250.00	\$2,250.00
Pre-tax premiums	-200.00	-0.00
Taxable Income	2,050.00	2,250.00
Taxes (22.65%)	-464.00	-510.00
After-tax dependent premiums	-0.00	-200.00
Take-home pay	1,586.00	1,540.00

This employee saves \$46.00 per month, or \$552.00 per year, through Premium Conversion.

EXAMPLE 2

An eligible employee and her husband earn \$81,000 a year and have two dependents. They are in the 28% tax bracket and pay 7.65% in Social Security taxes, for a total of 35.65% in taxes.

	With Premium Conversion	Without Premium Conversion
Monthly taxable income	\$6,750.00	\$6,750.00
Pre-tax premiums	-200.00	-0.00
Taxable income	6,550.00	6,750.00
Taxes (35.65%)	-2,335.00	-2,406.00
After-tax dependent premiums	-0.00	-200.00
Take-home pay	4,215.00	4,144.00

This employee saves \$71.00 per month, or \$852.00 per year, through Premium Conversion.

Flexible Reimbursement Accounts (FRAs)

You can help offset the high costs of health care and dependent care, get the care you need and keep more money in your pocket by opening a Flexible Reimbursement Account (FRA).

What is a FRA?

A FRA is an IRS-approved, tax-free account that saves you money on eligible medical and dependent care expenses. You authorize per-pay-period deposits to your FRA from your pre-tax salary. Then, as you incur eligible expenses, you request tax-free withdrawals from your account to reimburse yourself. There are two kinds of FRAs: a Medical Expense FRA and a Dependent Care FRA. If you incur both types of eligible expenses, you can establish both accounts.

Why would I enroll in a FRA? To Save Money!

Over a year's time you will probably spend a part of your salary on health or dependent care expenses. You can save money by putting that amount directly into a Flexible Reimbursement Account (FRA).

Without a FRA: (Example)*

\$50.00	monthly budget for a healthcare item
- 11.33	taxes on that \$50 are taken from your paycheck
\$38.67	amount you have left for healthcare item

With a FRA: (Example)

\$50.00	monthly FRA deposit for a healthcare item
- 0.00	no taxes (no taxes on FRA deposits)
\$50.00	amount you have left for healthcare item

*Based upon a 22.65% tax rate (15% Federal and 7.65% Social Security).

Because the money you set aside for medical and dependent care expenses is deducted from your salary before taxes, the income you use for these expenses is ALWAYS TAX FREE.

Pre-tax Administrative Fees

The administrative fees to participate in the Flexible Reimbursement Accounts are also deducted from your salary on a pre-tax basis. The monthly fees are as follows: *(Note: If you are not paid on a semi-monthly basis, please see your Benefits Administrator for the applicable administrative fees.)*

- \$2.25/month for participation in one of the Reimbursement Accounts or
- \$4.00/month for participation in both of the Reimbursement Accounts.

Direct Deposit

Enroll in Direct Deposit to ensure that your FRA reimbursement checks are automatically deposited into your checking or savings account. There is no fee for this service, and you don't have to wait for postal service delivery of your reimbursement. To apply, complete the application form available from your Benefits Administrator or call FBMC Customer Service at 1-800-342-8017.

Get the facts about FRAs

Be sure to read "The Fundamental Facts" section of this booklet for more details about the rules governing these accounts and the steps involved in getting reimbursed for eligible expenses. Be conservative in estimating your reimbursable expenses. If you have questions, contact FBMC Customer Service (Monday-Friday, 7 a.m.-10 p.m.) by phone at 1-800-342-8017, by logging on to the Internet at www.fbmc-benefits.com and clicking on the "Customers" link, or via e-mail at webcustomerservice@fbmc-benefits.com.

"Use It or Lose It"

You must use the full amount in the account(s) each calendar year or lose it. The "use it or lose it" rule means if you don't use all of the money in your account, you can't get a refund or roll it over into the next plan year. For this reason, **it is important that you set-up your Flexible Reimbursement Accounts only for predictable expenses.**

Flexible Reimbursement Accounts (FRAs)

1. The IRS does not allow you to receive reimbursement for your medical or other insurance premiums through either type of FRA.
2. You cannot transfer money between FRAs or pay a dependent care expense from your Medical Expense FRA or vice versa.
3. You may not receive insurance benefits or any other compensation for expenses which are reimbursed through your FRAs.
4. You cannot deduct reimbursed expenses for income tax purposes.
5. You may not be reimbursed for a service which you have not yet received.
6. You cannot change the annual amounts without a change in status.

Plan Year Close-out

You have a 90-day grace period at the end of the plan year for reimbursement of eligible FRA expenses incurred during your period of coverage within the plan year. The grace period ends on March 31.

Medical Expense FRA

Minimum Annual Deposit: \$480

Maximum Annual Deposit: \$5,000

Who is eligible?

Under the Medical Expense FRA, you may be reimbursed for eligible expenses incurred by the following:

- yourself
- your spouse and
- your dependents. To qualify as a dependent, an individual must meet the following criteria:
 - a) The individual must be your relative or live with you for at least one calendar year
 - b) He or she must be a U.S. citizen or a resident of the U.S., Mexico or Canada and
 - c) You must have provided the individual with at least half of his total support and/or expenses during the past calendar year.

An eligible child of divorced parents is treated as a dependent of both parents. Therefore, either or both parents can establish a Medical Expense FRA.

FRA vs. Claiming Expenses On A 1040

Unless your itemized medical expenses exceed 7.5% of your adjusted gross income, you can't get a break by claiming them on your IRS Form 1040.* But you can save taxes by paying for your uninsured, out-of-pocket medical expenses through a tax-free Medical Expense FRA.

For instance, if your adjusted gross income is \$45,000, the IRS would only allow you to deduct itemized expenses that exceed \$3,375 or 7.5% of your adjusted gross income. But, if you have \$2,000 in eligible medical expenses, the FRA saves you \$713 on your medical expenses in federal income (28%) and Social Security taxes (7.65%).

With a Medical Expense FRA, the money you set aside for medical expenses is deducted from your salary before taxes. So, it is ALWAYS tax-free, regardless of the amount. By enrolling in a Medical Expense FRA, you guarantee your savings.

***Note: Income from spouses must be included for the purposes of determining adjusted gross income.**

Availability

Once you sign up for a Medical Expense FRA and decide how much to contribute, that total amount is available to you at any time during your period of coverage. It's like a cash advance because you don't have to wait for the cash to accumulate in your account before you can use it to pay for your eligible out-of-pocket medical expenses. Your money is tax free and interest free!

Eligible Expenses

The following is a partial list of expenses that are reimbursable tax-free with a Medical Expense FRA. See "The Fundamental Facts" for details.

Acupuncture
Ambulance service
Birth control pills
Chiropractic care
Contact lenses (corrective)*
Dental fees*
Diagnostic tests
Doctors' fees
Drug addiction/alcoholism treatment
Drugs (prescription only**)
Experimental medical treatment
Eyeglasses (corrective)***
Guide dogs
Hearing aids & exams
Injections and Vaccinations
In vitro fertilization
Nursing services*
Optometrist fees
Orthodontic treatment*
Prescription drugs to alleviate nicotine withdrawal symptoms
Smoking cessation programs/treatments
Surgery****
Transportation for local medical care
Wheelchairs
X-rays

* To be eligible for reimbursement, some treatments, prescription drugs or services deemed cosmetic in nature require written proof of medical necessity from your healthcare provider.

** Not all drugs requiring a prescription are approved by the IRS as eligible for reimbursement.

*** The effective date for glasses and prosthetic devices is the day the item is available to be picked up, not the date ordered.

**** Unused funds designated for Medical Expense FRAs cannot be refunded to you. Please verify with your healthcare provider (prior to the start of the upcoming plan year) that you are a suitable candidate for any surgical procedure before committing the money to your FRA. See "The Fundamental Facts" section for more details.

Ineligible Expenses

- Insurance premiums
- Vision warranties and service contracts
- Over-the-counter drugs and medical supplies (even if prescribed by your healthcare provider)
- Health or fitness club membership fees
- Cosmetic surgery not deemed medically necessary to alleviate, mitigate or prevent a medical condition

Setting Aside Funds

Before setting aside money in a Medical Expense FRA for any surgical procedure (i.e. corrective laser eye surgery) to treat, cure, or mitigate a specific medical condition, it is recommended that, prior to the end of the annual enrollment period, you have completed all testing procedures and you have secured a written confirmation, from the healthcare provider performing your surgery, that you are a suitable candidate for the procedure, and that it can be scheduled and performed during the plan year.

Weight-loss Programs and the IRS

Simply being overweight and needing to lose weight is not in itself considered by the IRS to be a specific, diagnosable medical condition. Though the IRS reversed its position on *smoking cessation* programs and now allows prescribed smoking cessation programs to be reimbursable under a health (i.e., medical expense) FRA, *even if there is no specific illness*, it is significant to note that **the IRS did not reverse its position on weight-loss programs**. Expenses incurred for weight-loss programs and special foods may **only** be reimbursable if the treatment is prescribed by a physician as medically necessary to prevent, treat, mitigate or alleviate a specific, objectively diagnosable medical defect or illness (for example, hypertension, arteriosclerosis or diabetes.) *If the special food is a substitute for the patient's normal diet, it is reimbursable only to the extent that the cost **exceeds** the cost of a normal diet.*

Requesting Reimbursement

You should be issued your reimbursement within 10 working days from the time your properly completed reimbursement request is received by FBMC. To avoid delays, follow instructions for submitting your requests in the following FRA section.

How to Request Reimbursement

To request reimbursement from your Medical Expense FRA, you must include a correctly completed FRA Reimbursement Request Form along with:

- An Explanation of Benefits (EOB) from your health insurance plan that shows the type of service you received, the date and cost of the service, and any non-reimbursed portion of the cost; or
- A receipt, invoice, or bill from your healthcare provider listing the date you received the service, the cost of the service, the type of service — physical exam, dental filling — not simply “office visit,” and the person for whom the service was provided.
- A written statement from your healthcare provider saying that the service was medically necessary will be required if those services *could* be deemed cosmetic in nature.

Please refer to "The Fundamental Facts" section for more details concerning FRAs.

Dependent Care FRA

A Dependent Care FRA can help recover some of the money you spend to ensure your dependents are taken care of while you're working.

Generally, child and elder care costs that allow you and your spouse to work or actively look for work are eligible for reimbursement. If you are married, your spouse must work, be a full-time student, or be mentally or physically incapable of self-care. Payments for dependent care services provided by your dependent, your spouse's dependent, or your child who is under age 19 are not eligible for reimbursement.

Minimum Annual Deposit: \$480

Maximum Annual Deposit: The maximum plan year contribution depends on your tax filing status as the list below indicates. Your calculated amount cannot exceed the plan and calendar year limits established by the IRS.

Tax Filing Status

- If you are married and filing separately, your maximum is \$2,500.
- If you are single and head of household, your maximum is \$5,000.
- If you are married and filing jointly, your maximum is \$5,000.
- If either you or your spouse earn less than \$5,000 a year, your maximum is equal to the lower of the two incomes.
- If your spouse is a full-time student or incapable of self-care, your maximum is \$2,400 a year for one dependent and \$4,800 a year for two or more dependents.

FRA vs. Child Care Tax Credit

A FRA may save you more in taxes than the Child Care Tax Credit, but it depends on your income. If you expect your adjusted gross family income to exceed \$24,000 and you are not in the 15% tax bracket, the Dependent Care FRA will probably benefit you more, but consult with your personal tax advisor regarding your specific situation.

You can use the Dependent Care FRA and file for a tax credit as long as the total for both does not exceed the tax credit limits, which are \$2,400 for one dependent and \$4,800 for two or more dependents. You cannot use the tax credit if you are married and filing separately, and you cannot take a credit for expenses that have been reimbursed through your FRA. Call Fringe Benefits Management Company Customer Service at 1-800-342-8017 for assistance in determining the best choice for you.

Eligible Expenses

- Day care facility fees for qualified dependents
- Local day camp fees for qualified dependents
- Baby-sitting fees for at-home care of qualified dependents while you and your spouse are working (care cannot be provided by you, your spouse, or other dependent).

Eligible Dependents

- Children under 12 years or younger who reside in your household
- Adults/children mentally or physically incapable of self-care who spend at least 8 hours a day in your household.

Ineligible Expenses

- Child support payments or child care if you are a non-custodial parent
- Payments for dependent care services provided by your dependent, your spouse's dependent, or your child who is under age 19
- Healthcare costs or educational tuition
- Overnight care for your dependents (unless it allows you and your spouse to work during that time)
- Nursing home fees
- Diaper service
- Books and supplies
- Activity fees
- Kindergarten expenses

How to Request Reimbursement

Each Dependent Care FRA reimbursement request must include a properly completed FRA Reimbursement Request Form and receipts showing:

- The date your dependent received the care, not the date you paid for the service. In addition, you must also provide one of the following:
- The name, address and tax identification number of the facility; or
- The name, address, Social Security number and signature of the individual providing the dependent care service.

Be certain you can obtain the above information before you enroll in a Dependent Care FRA. This information is required with each request for reimbursement.

Please note that if you elect to participate in the Dependent Care FRA or if you file for the child care tax credit, you must attach IRS Form 2441, which reflects the above information, to your IRS Form 1040 income tax return. Failure to do this could result in the IRS not allowing your pre-tax exclusion.

Requesting Reimbursement

You should be issued your reimbursement within 10 working days from the time your properly completed reimbursement request is received by FBMC. To avoid delays, follow instructions for submitting your requests in the following FRA section.

When to Request Reimbursement

You can request reimbursement as often as you like; however, FBMC cannot approve your request for processing unless the last date of service for which you are requesting reimbursement has passed.

For example, if you pay your dependent care provider on September 1 for all of September and wish to be reimbursed for the entire month, you may only submit your September reimbursement request after the last day of care for that month has been received.

However, if your dependent care provider requires you to pay for services in advance for a period of time not to exceed one month (e.g., at the beginning of the month for care throughout the month), you may request reimbursement as often as you wish — weekly, biweekly or monthly. Simply make sure your FRA Reimbursement Request Form identifies the dates for which service has already been received and the amount for which you are requesting reimbursement. Make several copies of your original receipt so that a photocopy of it can be attached to each subsequent request you submit. In addition, before FBMC can fulfill your request, it must also have received your payroll contribution.

Please refer to “The Fundamental Facts” section for more details concerning FRAs.

FRA Worksheets

Deciding how much to deposit

To figure out how much to deposit in your FRA, refer to the following worksheets. Calculate the amount you expect to pay during the plan year for eligible, uninsured out-of-pocket healthcare and/or dependent care expenses. This calculated

amount cannot exceed established IRS limits for the plan and calendar years. (Refer to the individual FRA descriptions in this booklet for limits.) **Be conservative in your estimates, since any money remaining in your accounts cannot be returned to you or carried forward to the next plan year.**

TAX-FREE MEDICAL EXPENSE WORKSHEET

Estimate your eligible, uninsured out-of-pocket medical expenses for the plan year, which is January 1 through December 31.

YOUR ELIGIBLE UNINSURED MEDICAL EXPENSES

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____

SUBTOTAL

Estimated uninsured expenses for your period of coverage during the plan year.

ANNUAL CONTRIBUTION

This is the amount you will enter during your phone or web enrollment, or when completing your paper election form. Amount cannot exceed \$5,000.

DIVIDE

by the number of paychecks you will receive during the plan year*. _____

This is your pay period contribution. \$ _____

*If you are a new employee enrolling after the plan year begins, divide by the number of pay periods remaining in the plan year, based on your effective date.

TAX-FREE DEPENDENT CARE WORKSHEET

Estimate your eligible dependent care expenses for the plan year, which is January 1 through December 31. Remember that your calculated amount cannot exceed the calendar year limits established by the IRS.

NUMBER OF WEEKS

you will have eligible dependent care expenses from January 1 through December 31.
Remember to subtract holidays, vacations and other times you may not be paying for eligible child, adult or elder care.

MULTIPLY

by the amount of money you expect to spend each week. \$ _____

SUBTOTAL

Remember, your total contribution cannot exceed IRS limits for the plan year and the calendar year.

ANNUAL CONTRIBUTION

This is the amount you will enter during your phone or web enrollment, or when completing your paper election form. Amount cannot exceed IRS limits.

DIVIDE

by the number of paychecks you will receive during the plan year*. _____

This is your pay period contribution. \$ _____

*If you are a new employee enrolling after the plan year begins, divide by the number of pay periods remaining in the plan year, based on your effective date.

At your request, your FRA reimbursement checks may be deposited into your checking or savings account by enrolling in Direct Deposit.

FBMC's Interactive Benefits

The Information Line

WELCOME TO INTERACTIVE BENEFITS,

FBMC's 24-hour automated phone system. After you enroll, you can check on a claim, verify the status of a FRA, request a form and more! Getting connected to your benefits is easy. Call the Information Line at 1-800-865-FBMC(3262).

Your answers are just a phone call away!

The Interactive Benefits System includes a customer service line called the Information Line. When you dial 1-800-865-FBMC, you will receive step-by-step instructions to access information on your benefits administered by FBMC. The system is designed to provide you only with *information* on your benefits.

Getting Started

Call Interactive Benefits Enrollment Line at 1-800-865-FBMC(3262) to review your current benefit information, or request FRA claim forms. You will be asked to enter your employee number followed by the pound (#) sign. Then follow the prompts to change your temporary password (the last 4 digits of your Social Security number) to your confidential password. If you forget your password and you are calling Monday-Friday, 7 a.m.-10 p.m., you may press zero and a Customer Service Representative will assist you.

Once you've selected a password, the system will give you the following list of options and guide you through a simple, step-by-step process to obtain the information you need.

This system applies to benefits administered by Fringe Benefits Management Company. If you need further assistance, call FBMC Customer Service at 1-800-342-8017 (Monday-Friday, 7 a.m.-10 p.m., EST).

MAIN MENU OPTIONS

Press 1 for Flexible Reimbursement Accounts

- Current plan year
- Dependent Care or Medical Expense FRA
- Status of last Reimbursement Request
- Last deposit or payment
- Request a Reimbursement Form
- Inquire about another FRA

Press 2 for Form Requests

- Claim Forms
- Change In Status Forms

Press 3 to change your PIN

Press 4 to verify your address

OTHER OPTIONS

Press 0 to transfer to a Customer Service Representative

Press 9 to return to the Main Menu

Press* to repeat the menu

Press # to exit Information Line

The Fundamental Facts

WHO IS ELIGIBLE?

Premium Conversion: All active employees who participate in the State Health Benefits Program and pay their share of the health benefits premium through payroll deduction are eligible. The initial election period is within 31 days following the date of eligible employment.

Dependent Care Reimbursement Account: All employees who are eligible to participate in the State Health Benefits Program are eligible to participate in the Dependent Care Reimbursement Account. The initial election period is within 31 days following the date of eligible employment.

Medical Expense Reimbursement Account: All employees who have been eligible for the State Health Benefit Program for 6 continuous months may participate in the Medical Expense Reimbursement Account. Enrollment in the State Health Benefits Program is not required.

New Employees

If you are a new employee wishing to participate in the Medical Expense Reimbursement Account, **you must enroll within the 31 days prior to your completing six months of eligibility for the State Health Benefits Program.** Elections received within the 31-day election period will be effective on the six-month anniversary date for State Health Benefits Program eligibility.

If you do not enroll during this initial eligibility period, you must wait until the next Annual Enrollment or until you experience a Change In Status.

Period of Coverage

If you enroll in a Reimbursement Account during Annual Enrollment, your period of coverage is the same as the plan year, January 1 through December 31. If you enroll after the plan year begins, your period of coverage begins on the effective date of your coverage (which will always be the first of the month) and ends on December 31. Outside of the annual enrollment period, the minimum FRA election amount will be \$20.00 per pay period.

EFFECT ON OTHER BENEFITS

Social Security

Reducing your taxable pay means that less of your pay will be withdrawn for Social Security purposes. This may lead to a deduction in future Social Security benefits. However, for most employees, the reduction in Social Security benefits, if any, will be insignificant when compared to the value of paying lower taxes today.

Virginia Retirement System (VRS) Benefits

Your VRS benefits will not be affected by participation, since VRS benefits are based on an employee's gross pay.

MAKING CHANGES TO FLEXIBLE BENEFITS PROGRAM OUTSIDE OF ANNUAL ENROLLMENT – CHANGE IN STATUS

You can change your pre-tax benefit election(s) or vary the salary reduction amounts you have selected for the Plan Year under *limited* circumstances as provided by your employer's Plan and established IRS guidelines.

Election changes for the Flexible Benefits Program include:

Premium Conversion

- enrollment
- discontinuing

Flexible Reimbursement Accounts

- enrollment in an account
- termination of an account
- decreasing or increasing an existing contribution amount

A partial list of categories from which the IRS and your employer's Plan permit election changes during a Plan Year are:

I. Changes In Status

You may change a benefit election when a valid change in status event occurs but **only** if your change is made **on account of, and corresponds with**, a change in status that affects your own, your spouse's or your dependent's *eligibility for coverage*. Assuming that these general consistency requirements are satisfied, if the change in status event affects eligibility for a particular coverage, a corresponding change can be made to the same type of coverage.

You must complete and submit a Change In Status Form within 31 days of the event. The Benefits Administrator for your agency will determine if your Change In Status meets IRS regulations. If your change results from a valid Change In Status, your existing benefits will be stopped or modified (as appropriate) at the first of the month following the event (exception: For birth/adoption, Premium Conversion will be effective the first of the month of the birth or adoption). The following events constitute valid Changes In Status:

- change in legal marital status, including marriage, death of spouse or divorce
- change in the number of dependents, including birth, adoption, placement for adoption or death of a dependent. *Existing* dependents can also be added whenever a dependent gains eligibility as a result of a valid Change In Status event.
- change in employment status of employee, your spouse or your dependent, including: termination or commencement of employment; a strike or lockout; taking an unpaid leave of absence; change in work schedule, including an increase or decrease in the number of hours of employment; a switch between full-time and part-time status, or a change in worksite which results in a **change in benefits eligibility**
- an event that causes a dependent to satisfy or cease to satisfy the eligibility requirements for coverage due to attainment of age, student status or any similar circumstances as provided under the accident or health plan under which the employee receives coverage, and
- a change in the place of residence of the employee, spouse or dependent.

The IRS further clarifies that the Change In Status must result in the employee, spouse or dependent gaining or losing eligibility for coverage or for a particular coverage option such as managed care or indemnity.

II. Coverage Costs and Changes

Annual Enrollment Under Other Employer's Plan. For a change in coverage of your Spouse or Dependent under their employer's plan (except for a Medical Expense FRA), you are permitted an election change when your family member makes an Annual Enrollment change under his or her employer's plan if that plan has a different plan year from the cafeteria plan of your employer.

Coverage Changes and Dependent Care. You may make a corresponding election change when you switch from one dependent care provider to another - even if the dependent care provider is a relative (Note that dependent care cannot be provided by you, your spouse, or your dependent). However, if you replace a dependent care provider with a relative, and the relative at some later date wants a raise, IRS regulations prohibit you from making a mid-year election change to increase your salary reductions (i.e., to make a cost change) to reflect that relative's increase in cost.

Termination Followed By Re-hire Within 30 Days. If you terminate employment and are re-hired by the Commonwealth of Virginia 30 days or less after termination, you resume the benefits you had prior to termination (including your Medical Expense FRA), unless otherwise provided by law. You will have access to the Medical Expense FRA account balance, up to the full annual limit (reduced by prior reimbursement), for expenses incurred **after** you return.

Termination Followed By Re-hire After 30 Days. If you terminate employment and are re-hired by the Commonwealth of Virginia 30 days or more after termination, you are prohibited from participating in any prior plan component for the remainder of that Plan Year.

III. Health Insurance Portability and Accountability Act (HIPAA)

HIPAA provides an *exception* to the general rule that election changes can only take effect prospectively. IRS regulations regarding HIPAA's special enrollment rights provide that the plan sponsor may permit an employee to change his/her salary reduction election to pay for the extra cost for health coverage of his/her newborn or newly adopted dependent. If elected, the coverage must be effective retroactive to the date of birth or adoption (provided the dependent is enrolled within **31 days** of birth, adoption or placement for adoption).

IV. Qualified Medical Child Support Order

If a judgment, decree or order requires that you provide accident or health coverage for your dependent child (including a foster child who is your dependent), you may change your election to provide coverage for the dependent child. If the Order requires that another individual (including your spouse or former spouse) cover the dependent child and provide coverage under that individual's plan, you may change your election to revoke coverage for the dependent child.

V. Government Sponsored Plans

If you, your spouse, or your dependent, who is enrolled in a health or accident benefit under your employer's Plan, becomes entitled to a government sponsored health plan, such as Medicare or Medicaid, you may prospectively reduce or cancel the health or accident coverage of the person becoming entitled to the plan. Further, if you, your spouse, or your dependent, who has been entitled to the government sponsored plan loses eligibility for such coverage, you may prospectively elect to commence or increase the health or accident coverage of the person losing eligibility.

VI. Extended Participation for Medical Expense Reimbursement Accounts

According to federal and state laws in the case of group health plans (including a Medical Expense FRA), if you are a covered employee who has lost group health plan coverage due to a qualifying event governed by COBRA, you are entitled to continue, as a Qualified Beneficiary, any of your own and your dependent's group health plans which you had while actively at work. If a COBRA event occurs with respect to you, your spouse or dependent such as a termination, retirement or a reduction in hours. You may continue to make after-tax your contributions to the your Medical Expense Reimbursement Account through the end of the plan year in which the COBRA qualifying event occurred. For example, if you go from full-time to part-time, you are no longer eligible to participate in the Flexible Benefits Program, but you could extend your participation in your Medical Expense Reimbursement Account until December 31st. The employee or qualified beneficiary must notify the Benefits Administrator of the qualifying event and of the desire to extend participation in the Medical Expense Reimbursement Account within 60 days of the COBRA qualifying event. If you elect to continue your Medical Expense FRA under COBRA until the end of the plan year, your Medical Expense FRA is exempt under COBRA from continuation beyond the end of the plan year in which the qualifying event occurred, and your Medical Expense FRA will cease at the end of that plan year.

NOTICE OF CONTRACT ADMINISTRATOR'S CAPACITY PLEASE READ: This notice advises FRA Participants of the identity and relationship among the contract administrator and The Commonwealth of Virginia:

Fringe Benefits Management Company (FBMC) has been authorized by The Commonwealth of Virginia to provide administrative services for The Commonwealth of Virginia's FRA Reimbursement Accounts offered herein. In some instances, FBMC may also be authorized by The Commonwealth of Virginia to provide certain services, including (but not limited to) marketing, processing claims payments, and other services. Fringe Benefits Management Company is not an insurance company. The Commonwealth of Virginia is liable for the funds to pay your reimbursement claims.

If FBMC is authorized to process FRA Reimbursement Account claims for The Commonwealth of Virginia, it will do so promptly. In the event there are delays in claims processing, you will have no greater rights to interest or other remedies against FBMC than would otherwise be afforded to you by law.

F B M C

Fringe Benefits Management Company

Contract Administrator
Post Office Box 1878
Tallahassee, FL 32302-1878

FBMC/COMVA/0900
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Customer Service 1-800-342-8017
1-800-955-8771 (TDD)
Monday – Friday 7 a.m. to 10 p.m.
webcustomerservice@fbmc-benefits.com

Information contained herein does not constitute an insurance certificate or policy.
Certificates will be provided to participants following the start of the new plan year, if applicable.